



30 September 2021

OIAD-97

9(2)(a)

Dear 9(2)(a)

Thank you for your email of 04 August 2021 requesting the following under the Official Information Act 1982 (the Act):

Pursuant to the OIA, I request a copy of any paper produced with respect to the the following Cabinet minute reference:

"invited the Minister for Climate Change to report back on progress in increasing and improving Crown financial information on climate change commitments and measures, by July 2021."

The Ministry for the Environment has identified six documents in scope of your request, as listed in the attached document schedule. Some information within these documents has been withheld under the following sections of the Act:

- 9(2)(a) to protect the privacy of natural persons.
- 9(2)(f)(iv) to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.
- 9(2)(g)(i) to maintain the effective conduct of public affairs through the free and frank expression of opinions.
- 18(d) the information requested is or will soon be available.

In terms of section 9(1) of the Act, I am satisfied that, in the circumstances, the withholding of this information is not outweighed by other considerations that render it desirable to make the information available in the public interest.

You have the right to seek an investigation and review by the Office of the Ombudsman of my decision to withhold information relating to this request, in accordance with section 28(3) of the Act. The relevant details can be found on their website at:

www.ombudsman.parliament.nz.

Please note that due to the public interest in our work the Ministry for the Environment publishes responses to requests for official information on our [OIA responses page](#) shortly after the response has been sent. If you have any queries about this, please feel free to contact our Ministerial Services team: ministerials@mfe.govt.nz.

Yours sincerely

Electronically Approved

Alex White
Team Leader
Sustainable Finance
Policy Strategy and Transition Finance

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Document schedule

Document no.	Document date	Content	Decisions	OIA sections applied
1	29 Apr 2021	2021-B-07900: Funding and financing the climate transition – Draft Cabinet paper feedback	Release in Part	9(2)(a); 9(2)(f)(iv); 18(d) The information will soon be publicly available on the Treasury website. https://www.treasury.govt.nz/publications/information-release/finance
2	11 May 2021	2021-B-07999: Funding and financing the climate transition – updated Cabinet paper and timing options to go to Cabinet	Release in Part	9(2)(a); 9(2)(f)(iv); 9(2)(g)(i)
3	2 July 2021	BRF-49: Joint Report: Funding and Financing the Transition	Release in Part	9(2)(a); 9(2)(f)(iv)
4	7 July 2021	BRF-327: Funding and Financing the Transition – follow up on feedback	Release in Part	9(2)(a); 9(2)(f)(iv)
5	14 Jun 2021	CBC-21-MIN-0060 Developing an Approach to Funding and Financing the Climate Transition	Withheld in Full	18(d) The information will soon be publicly available on the Treasury website. https://www.treasury.govt.nz/publications/information-release/finance
6	14 Jun 2021	CBC-21-SUB-0060 Developing an Approach to Funding and Financing the Climate Transition	Withheld in Full	18(d) The information will soon be publicly available on the Treasury website. https://www.treasury.govt.nz/publications/information-release/finance

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Funding and financing the climate transition – Draft Cabinet paper for feedback



Date Submitted:	29 April 2021	MfE Tracking #: 2021-B-07900	Treasury Tracking #: T2021/1080
Security Level	BUDGET SENSITIVE	Priority:	Urgent

	Action sought:	Response by:
To Hon Grant Robertson, Minister of Finance	Agree recommendations	3 May 2021
To Hon James Shaw, Minister of Climate Change	Provide feedback on draft Cabinet paper	

Actions for Minister's Office Staff	Return the signed report and any written feedback to Officials.
Number of appendices and attachments 1	Titles of appendices and attachments (ie separate attached documents): 1. Draft Cabinet paper – funding and financing the climate transition

Ministry contacts

Position	Name	Cell phone	1 st contact
MfE	Alex White	022 012 0060	✓
Treasury	Patrick Kirkham	9(2)(a)	✓
MfE Director	Katherine Wilson	021 146 3122	
Treasury Team Leader	Udayan Mukherjee	9(2)(a)	

Funding and financing the climate transition – Draft Cabinet paper for feedback

1. The purpose of this briefing is to provide context on the draft Cabinet paper - funding and financing the climate transition (Appendix 1) and to update you on next steps.
2. The Cabinet paper's primary purpose is to seek a mandate for the Funding and Financing the Climate Transition work programme. This programme will be led by the Treasury, working closely with the Ministry for the Environment.
3. The proposed work programme focusses on immediate steps to October 2021, to support decisions through Budget 2022. We propose that you report back to Cabinet on the outputs and recommendations of this work programme by October 2021, and in the interim update the Climate Ministers Response Group on progress.
4. Notably, the need for a long-term funding and financing strategy will not end at Budget 2022. We consider this work programme the first steps towards an adequate, certain and durable strategy for funding and financing the climate transition.

Context

Background

5. You met on 10 March 2021 to discuss funding and financing the transition to a low emissions, climate resilient economy, in the context of Budget 2021 [2021-B-07589; T2021/362 refer]. In that meeting, it was agreed that the April report back to Cabinet on funding and financing could occur after Budget 2021 decisions.

Decisions through Budget 2021 and decisions still to be taken

6. Since you met in March, the following progress has been made through Budget 2021:
 - a. NZ GIF received \$200m in the 2021/22 financial year in addition to a further \$100m of funding provided in contingency for 2022/23.
 - b. The Ministry for the Environment and the Treasury received \$1m of funding in the 2021/22 financial year to progress work on the funding and financing strategy.
7. Two related bids were not accepted or were deferred at Budget 2021. These are:

s9(2)(f)(iv)

8. Hypothecation of ETS proceeds will be considered through the work programme set out in the draft Cabinet paper. Note that Treasury officials will be meeting with the Minister of Finance on 6 May to discuss how to develop any options in more detail over the remainder of 2021.
9. Officials will also consider institutional issues, particularly the establishment or designation of an institution, to support both the disbursement of public funds and the mobilisation of private finance to meet mitigation and adaptation targets. s9(2)(f)(iv)

s9(2)(f)(iv)

s9(2)(f)(iv)

For this reason, we have included a recommendation in the Cabinet paper that enables consultation with institutional investors and current actors in the climate

investment space.

10. s9(2)(f)(iv)

Links to the ERP and NAP

11. Treasury officials are currently drafting the 'funding and financing' chapter of the Emissions Reduction Plan (ERP), with MfE's support. s9(2)(f)(iv)

s9(2)(f)(iv)

12. The work undertaken as part of this work programme will strongly inform the content of section c, s9(2)(f)(iv) in particular. As this work programme will report back to Cabinet in October 2021, we will consider whether proposals developed through this work stream could be consulted on during the public consultation on the ERP (July-August).

13. This Cabinet paper also notes that funding for implementation-ready action in the ERP could be considered later in 2021. Such decisions will form part of the work programme.

14. The National Adaptation Plan (NAP) is currently under development, s9(2)(f)(iv) Components of this work programme will also inform the content of this chapter.

Next steps

15. Officials will update the Cabinet paper following your feedback and begin inter-agency consultation. A proposed timeline is set out below.

Table 1: Proposed timeline for taking the paper to Cabinet

Step	Date
Interagency consultation	4 – 11 May
Updated draft Cabinet paper to Ministers for approval	11 May
Ministerial consultation	12 – 25 May
Final Ministerial sign off	26 May
Cabinet paper lodged	27 May
Paper considered at DEV	2 June
Paper considered at Cabinet	7 June

16. We propose the following agencies be consulted on the draft Cabinet paper.

- a. The Department of the Prime Minister and Cabinet
- b. The Ministry of Business, Innovation and Employment

17. If Cabinet agrees the work programme, we will provide you with a work plan in early June.

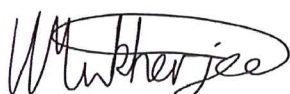
Paragraphs to finalise in the Cabinet paper

18. Note that paragraph 11.3 of the draft Cabinet paper references the Climate Adaptation Act. We will finalise the timeframes of the introduction of the Act prior to lodging the Cabinet paper.
19. Note that officials are continuing to discuss how best to ensure effective engagement with iwi/Māori on this work programme. As such, paragraph 36 will be built on prior to finalising the paper.
20. Officials will reflect any issues raised through interagency consultation in paragraph 49.

Recommendations

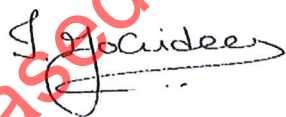
21. We recommend that you:

- a. **Provide** feedback to officials on the Draft Cabinet paper and proposed work programme
Yes/No
- b. **Agree** officials should begin interagency consultation on the draft Cabinet paper, subject to requested changes
Yes/No
- c. **Agree** the Minister of Finance will lead in taking this paper to Cabinet
Yes/No

Signature


Udayan Mukherjee
Team Leader, Transitions, Regions and Economic Development
The Treasury

29 April 2021



Fathima Iftikar
Manager, Sustainable Finance
Ministry for the Environment

29 April 2021

Hon Grant Robertson
Minister of Finance

Date

Hon James Shaw
Minister of Climate Change

Date

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Appendix 1: Draft Cabinet paper – funding and financing the climate transition

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Funding and financing the climate transition – updated Cabinet paper and timing options to go to Cabinet

Document 2



Date Submitted:	11 May 2021	MfE Tracking #: 2021-B-07999	Treasury Tracking #: T2021/1080
Security Level	BUDGET SENSITIVE	Priority:	Urgent

	Action sought:	Response by:
To Hon Grant Robertson, Minister of Finance	Agree recommendations	12 May 2021
To Hon James Shaw, Minister of Climate Change	Provide feedback on draft Cabinet paper	

Actions for Minister's Office Staff	Return the signed report and any written feedback to Officials.
Number of appendices and attachments 1	Titles of appendices and attachments (ie separate attached documents): 1. Updated draft Cabinet paper – funding and financing the climate transition

Ministry contacts

Position	Name	Cell phone	1 st contact
MfE	Alex White	s9(2)(a)	✓
Treasury	Patrick Kirkham		✓
MfE Director	Katherine Wilson		
Treasury Team Leader	Udayan Mukherjee		

Funding and financing the climate transition – updated Cabinet paper and timing options to go to Cabinet

1. The purpose of this briefing is to:
 - a. highlight key changes to the draft Cabinet paper on ‘funding and financing the climate transition’ since agencies last shared this with you [2021-B-07900 refers];
 - b. s9(2)(f)(iv)
 - c. provide you with updated timing options for taking this paper to Cabinet.
2. A clean updated version of the draft Cabinet paper is attached. Officials will also send a ‘track changes’ version to your office via email.

Key changes to the draft Cabinet paper

3. In response to your feedback, officials have made the following key changes to the draft Cabinet paper:

s9(2)(g)(i)

s9(2)(f)(iv)

- 5. s9(2)(f)(iv)
- 6. s9(2)(f)(iv)

Timing for consultation on the Cabinet paper and going to Cabinet

- 7. We have provided three options for timing below and are seeking your preference:
 - a. **Option 1** combines timelines for interagency and Ministerial consultation, to go to DEV on 2 June as planned (recommended option)
 - b. **Option 2** reduces time for interagency and Ministerial consultation, to go to DEV on 2 June as planned
 - c. **Option 3** allows the full consultation period for both interagency and Ministerial consultation, to go to DEV on 9 June, one week later than planned.

	Option 1	Option 2	Option 3
Interagency consultation	12 – 20 May	12 – 14 May	12 – 18 May
Updated draft Cabinet paper to Ministers for approval	N/A	17 May	19 May
Ministerial consultation	12 – 24 May (9 full working days)	18 – 25 May (6 full working days)	20 May - 1 June (9 full working days)
Final Ministerial sign off	26 May	26 May	2 June
Cabinet paper lodged	27 May	27 May	3 June
Paper considered at DEV	2 June	2 June	9 June
Paper considered at Cabinet	7 June	7 June	14 June

- 8. Note that further updates to the Cabinet paper will likely require going to DEV on 9 June.

Recommendations

- 9. We recommend that you:
 - a. **Approve** option 1 (combined consultation)
 - b. **If not, approve** either option 2 (reduced consultation)

Yes/No

Yes/No

c. **Or** option 3 (delay going to Cabinet)

Yes/No

d. **Agree** to circulate Cabinet paper for consultation

Yes/No

e. **Provide** any further feedback on the Cabinet paper

Yes/No

Signature



Udayan Mukherjee
Team Leader, Transitions, Regions and Economic Development
The Treasury

11 May 2021



Katherine Wilson
Director, Climate Change
Ministry for the Environment

11 May 2021

Hon Grant Robertson
Minister of Finance

Date

Hon James Shaw
Minister of Climate Change

Date

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Appendix 1: Updated draft Cabinet paper – funding and financing the climate transition

18(d)

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Joint Report: Funding and Financing the Transition

Date:	2 July 2021	Report No:	T2021/1566
		File Number:	SH-10-0

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Indicate your view on the proposals in this paper	None
Minister of Climate Change (Hon James Shaw)		None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact	
Patrick Kirkham	Senior Analyst, The Treasury	N/A (mob)	✓	
Udayan Mukherjee	Team Leader, The Treasury	N/A (mob)		
Alex White	Team Leader, Sustainable Finance, Ministry for Environment	N/A (wk)	022 012 0060 (mob)	✓
Katherine Wilson	Director, Ministry for Environment	N/A (wk)	021 146 3122 (mob)	

Minister's Office actions (if required)

Return the signed report to the Treasury and the Ministry for the Environment.

Enclosure: No

Joint Report: Funding and Financing the Transition – Joint Report: Treasury / Ministry for the Environment

Executive Summary


Developing a funding and financing strategy is critical to support the Government's climate policy objectives. In June 2021, Cabinet agreed to establish a work programme with the objectives of providing adequate, certain and durable sources of public and private finance for the climate transition.

This report provides a first tranche of advice on implementing that work programme. The report seeks direction on proposals for the following workstreams set out in the June Cabinet paper:

- A method for and use of recycling ETS proceeds
- An approach to climate change funding through Budget 2022 that is aligned with the direction of the public finance modernisation work programme
- Monitoring progress towards New Zealand's emissions reduction targets including the fiscal risks of our Nationally Determined Contribution (NDC)

We also provide an update on tools for monitoring public expenditure on climate action and an update on the financial institutions workstream; this is considering the role an institution could play to coordinate investment to make the transition as efficient and effective as possible. We will report on these workstreams more fully in September 2021.

s9(2)(f)(iv)



At present, we do not have a good understanding of the quantum of government funding required to meet our climate targets, though the development of the ERP and National Adaptation Plan may assist this issue. s9(2)(f)(iv)

[Redacted]

s9(2)(f)(iv)

[Redacted]

Agreeing this funding approach in October would align with the current timeframe for deciding on the Government's overall ERP and with decisions on the Budget 2022 strategy. This would enable the public communication of a credible funding strategy to accompany that overall mitigation policy strategy. The detailed policy and allocation decisions would be worked through as part of the Budget 2022 process. The Ministry for the Environment notes that Ministers may want to consider taking some funding decisions ahead of Budget 2022.

You may wish to provide some earlier indications to your ministerial colleagues of your intended approach to climate funding, as this may increase their confidence in developing and consulting on proposals that could form part of the ERP. This would also be consistent with a message about the importance of good planning and allowing time for consultation to ensure high quality proposals that make progress against climate objectives. s9(2)(f)(iv)

[Redacted] an important role in developing proposals as part of Budget 2022.

s9(2)(f)(iv)

[Redacted]

In this paper we have highlighted key issues where your direction will enable further progress. Officials can discuss these issues with you in more depth. Following that, officials can prepare an update on this work programme for you to take to the CRMG in early August.

Recommended Action

We recommend that you:

- a **note** that Cabinet has invited the Minister of Finance and the Minister for Climate Change to report back by the end of October to seek decisions on an initial approach to funding and financing the climate transition [CBC-21-MIN-0060 refers];
- b **note** that this Cabinet report-back will align well with the current timeframe for the Government's decisions on its Emissions Reduction Plan (ERP);

9(2)(f)(iv)

s9(2)(f)(iv)

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9(2)(f)(iv)

I **note** that officials understand your objectives regarding the use of ETS proceeds are:

9(2)(f)(iv)

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9(2)(f)(iv)



Udayan Mukherjee
Team Leader, Treasury

Katherine Wilson
Director, Ministry for the Environment

Hon Grant Robertson
Minister of Finance

Hon James Shaw
Minister of Climate Change

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Joint Report: Funding and Financing the Transition – Joint Report: Treasury / Ministry for the Environment

Purpose of Report

1. This report provides initial advice and seeks further steers on several workstreams within the Funding and Financing work programme. The report is divided into the following sections:
 - i. Purpose of Report
 - ii. Background
 - iii. s9(2)(f)(iv)
 - iv. Recycling the proceeds of the ETS
 - v. Tools for monitoring public expenditure on climate action
 - vi. Vote Climate Change
 - vii. Monitoring progress towards New Zealand's emissions reduction targets
 - viii. Next steps and implementing the funding and financing workstream
2. The report focusses on initial decisions required to inform the development of Budget 2022 strategy, particularly in relation to the high-level design choices in sections iii and iv above. Further advice will follow on detailed design choices in these areas. The remaining sections provide preliminary thinking and seek any initial feedback from Ministers as we develop further work. Officials will come back to Ministers for future decisions in these areas in the coming months.

Background

3. Cabinet recently considered a paper setting out a range of areas that the Treasury, with support from the Ministry of Environment, will progress in a work programme on funding and financing our just transition to a low-emissions, resilient economy [CBC-21-MIN-0060 refers].
4. Cabinet noted five inter-related objectives of the work programme: adequacy of funding, certainty, durability, private capital mobilisation and alignment [of public funding with positive climate outcomes].
5. Cabinet also invited the Minister of Finance and Minister of Climate Change to report back to the Cabinet Environment, Energy and Climate Committee by 31 October to provide options and seek decisions on an initial approach to funding and financing, including on:
 - i. A method for and use of recycling Emissions Trading Scheme proceeds;
 - ii. An approach to climate change funding through Budget 2022 that is aligned with the direction of the public finance system modernisation work programme;
 - iii. Tools for monitoring public expenditure on climate action;

- iv. Monitoring progress towards New Zealand’s emissions reduction targets, including the fiscal risk of our Nationally Determined Contributions (NDCs) alongside decisions on updating the NDC; and
- v. Options on the appropriate institutional landscape to support disbursement of public funds and accelerating the mobilisation of private sector finance.

6. 9(2)(f)(iv) [Redacted]

7. On 31 May 2021 He Pou a Rangi (the Climate Change Commission) submitted its final advice on how Aotearoa can reach its climate target to the Minister of Climate Change. The advice made a number of recommendations related to funding and financing. Further detail on some of these is set out below alongside initial advice from officials that can help inform the Government’s response; decisions are not sought now in relation to these issues.

s9(2)(f)(iv) [Redacted]

Background

8. 9(2)(f)(iv) [Redacted] Similarly, in the Budget speech the Minister of Finance noted that the current Budget process makes it “difficult to make the sustained and long-term investments needed to fix an intergenerational, multi-faceted problem like climate change.”

9. The Funding and Financing work programme noted the certainty and durability of funding for climate change as key objectives, alongside alignment of public funds and adequacy of funding. It is possible that the current Budget process does not sufficiently meet these objectives.

10. Table 1 sets out funding allocated at recent Budgets that was set out by Government as being “climate related” to give an indication of what recent climate expenditure has been.

Table 1: Average and total operating and total capital allocated to climate-priorities in Budget

	Operating (\$m, avg p.a. over forecast period)	Operating (\$m, total)	Capital (\$m, total)
Budget 2019	240	957	3,099
Budget 2021	94	374	638

11. In considering these figures it is important to note that there is no agreed definition of what constitutes climate expenditure (an issue which may need to be addressed in future). Past spending on climate change is also not a good indicator of future funding requirements. In future higher levels of government funding are likely to be required to support climate objectives.

s9(2)(f)(iv)

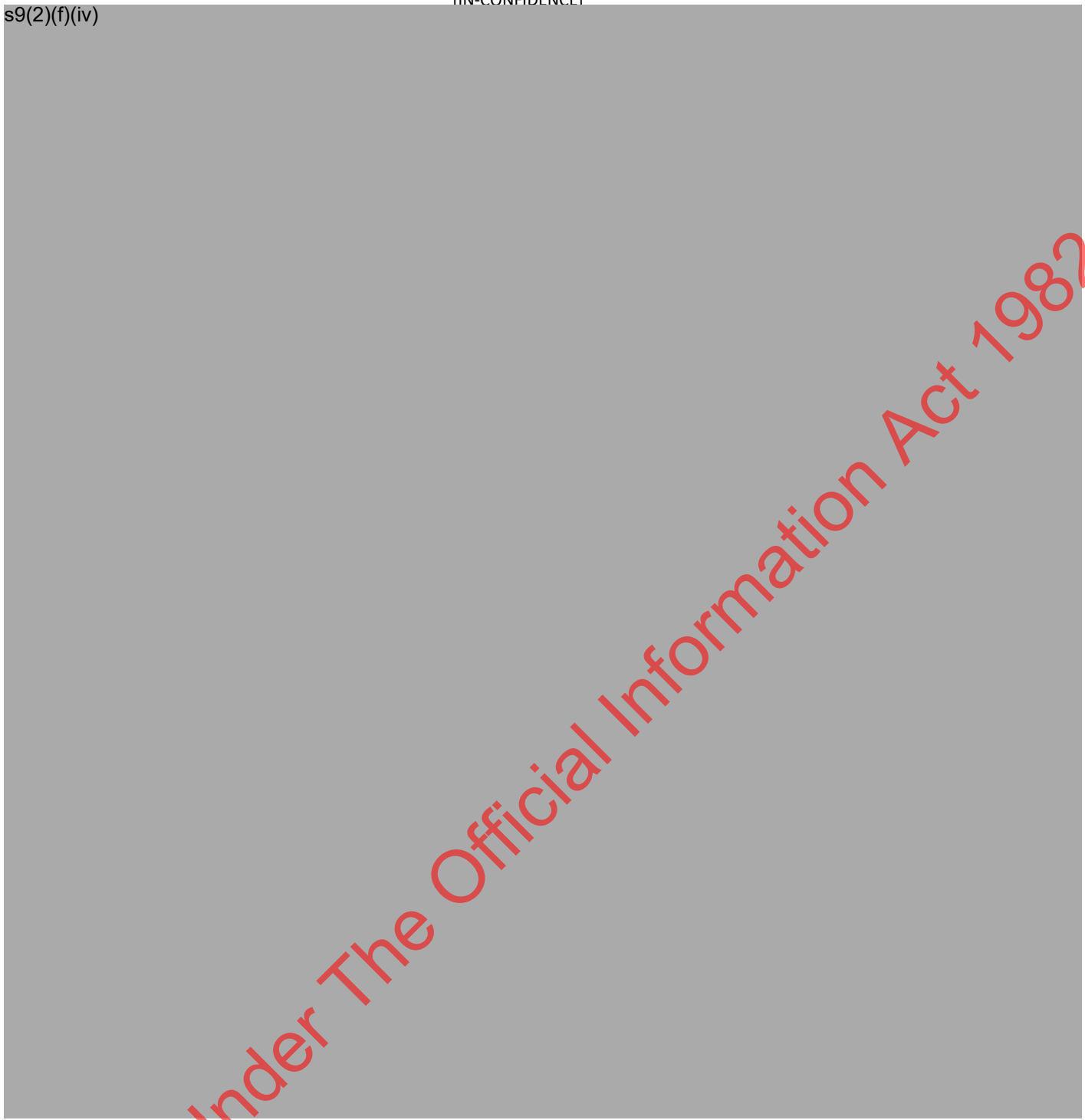
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s9(2)(f)(iv)

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Recycling the proceeds of the ETS

Background

39. Officials have been considering ways to recycle the proceeds from the ETS, including through considering an initiative for hypothecation through the Budget 2021 process.
40. On 6 May 2021 Treasury officials met with the Minister of Finance to discuss initial ideas for hypothecation from the ETS [T2021/1005 refers].
41. In the 2021 Budget speech the Minister of Finance set out the intention, from Budget 2022 onwards, to hypothecate “the revenue generated from the ETS into emissions reduction programmes.”
42. In its recent advice to government the Climate Change Commission similarly recommended that Government develop a plan for the recycling of ETS proceeds.

- 43. There are different options for ways to hypothecate from the ETS, with choices around the funding source to ringfence for certain expenditure and the management of fiscal costs from hypothecation.
- 44. Hypothecation requires the government to ringfence a certain funding source to fund particular expenditure. As that ringfenced funding cannot be used for other purposes all hypothecation involves some loss of fiscal flexibility.

Rationale and objective

45. 9(2)(g)(i)

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Which funding source from the ETS to hypothecate?

46. The fiscal impact of the ETS is complex. Different transactions between government and emitters, as well as revaluations of units, have different fiscal impacts. These are set out in Annex 2.

47. 9(2)(f)(iv)

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48.

49. The forecast cash proceeds from the Emissions Trading Scheme are set out in Table 1. This forecast is highly uncertain because:

¹ The policy aims of allocating free units are more complicated and less directly tied to emissions reductions. Similarly, the surrender of units occurs when an emitter has lower reductions than it has permits for.

- i. The New Zealand Unit (NZU) price is volatile
- ii. The volume of NZU units auctioned may reduce (proceeds could decrease):
 - i. If government reduces the number of available units in order to accelerate domestic emissions reduction
 - ii. Decisions on how to meet the NDC could impact ETS proceeds. If the government decided to allow domestic ETS participants to directly purchase international units (as opposed other methods such as Government purchase of international units), it would need to decrease the number of units auctioned by the same volume, decreasing the available proceeds from the ETS.

Table 2: Forecast of cash proceeds that would hypothecated - as at BEFU 2021²

Year	2019/20 Actual	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
\$m	215	1,375 ³	707	699	661	603

9(2)(f)(iv)

² We have based this amount on the cash result of the proceeds rather than the accrual amounts. The cash proceeds reflect the receipts at the time of auction and so are not influenced by later impacts on net worth for example through free issues and revaluation of units.

³ This figure is significantly higher than the following years because it includes cash from the Fixed Price Option, which will not be available from 2022 onwards.

s9(2)(f)(iv)

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Tools for monitoring public expenditure on climate action

Background

61. In considering public expenditure on climate change there are a number of challenges in our monitoring, tracking and assessment of climate related spend. It will be increasingly important to address these challenges in future.

Definition of climate expenditure

62. As noted in paragraph 15, here is no universally agreed definition of what constitutes “climate expenditure” in government. In part this is because there are a number of different (and not mutually exclusive) expenditure areas that could be considered “climate aligned” for example:
- i. Direct mitigation (e.g. subsidies for electric vehicles)
 - ii. Direct adaptation (e.g. the costs of building flood defences)
 - iii. Research and development
 - iv. Policy and institutional expenditure (e.g. funding for the Climate Change Commission itself)
 - v. Measures to address the distributional impacts of climate change (e.g. means based grants)
 - vi. Measures that facilitate the transition (e.g. initiatives to support skills development)
63. Even within these, however, it is often difficult to definitively label something as “climate aligned.” There is not always a clear counterfactual against which to consider the likely emissions of a project.⁴ There is therefore no clear benchmark for something that is climate aligned or misaligned, even though there are clear examples of expenditure at both ends of this scale.
64. The current lack of a definition poses a challenge when:
- i. attempting to track government expenditure on climate change;
 - ii. s9(2)(f)(iv)
 - iii. providing assurance that broader spending isn’t having a detrimental impact on our climate targets.

⁴ For example, a new housing development might be built in a way that has lower emissions associated with it than existing housing developments, but the construction and ongoing use of the development would still be associated with a substantial level of emissions.

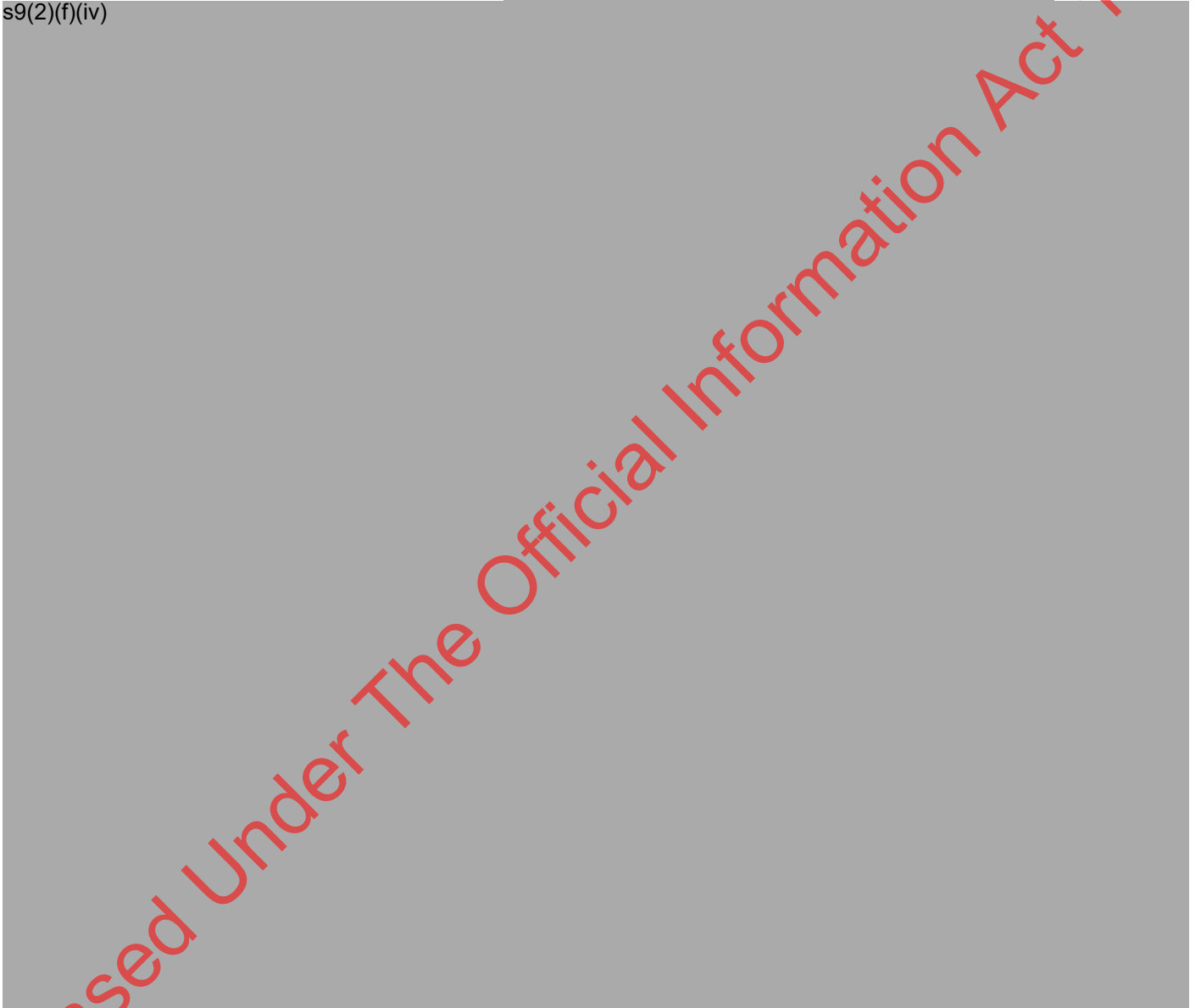
s9(2)(f)(iv)

Vote Climate Change

73. In its final advice to government the Climate Change Commission recommended “establishing Vote Climate Change as a specific multi-agency appropriation which consolidates existing and future government funding for core climate change mitigation and adaptation activities.” It argues that establishing a new Vote would “support the scale of response required and make sure action [on climate change] is coordinated.”

74. We understand the aims of this recommendation are to:
- i. Increase transparency and monitoring of climate change expenditure in government
 - ii. Support coordination of climate change policy across government
 - iii. Support the adequacy, scale and durability of funding for climate change objectives
75. These aims strongly align with the objectives for the funding and financing workstream set out in the June Cabinet paper. s9(2)(f)(iv)

s9(2)(f)(iv)



Monitoring progress towards New Zealand's emissions reduction targets

79. s9(2)(f)(iv)




9(2)(f)(iv)

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9(2)(f)(iv)

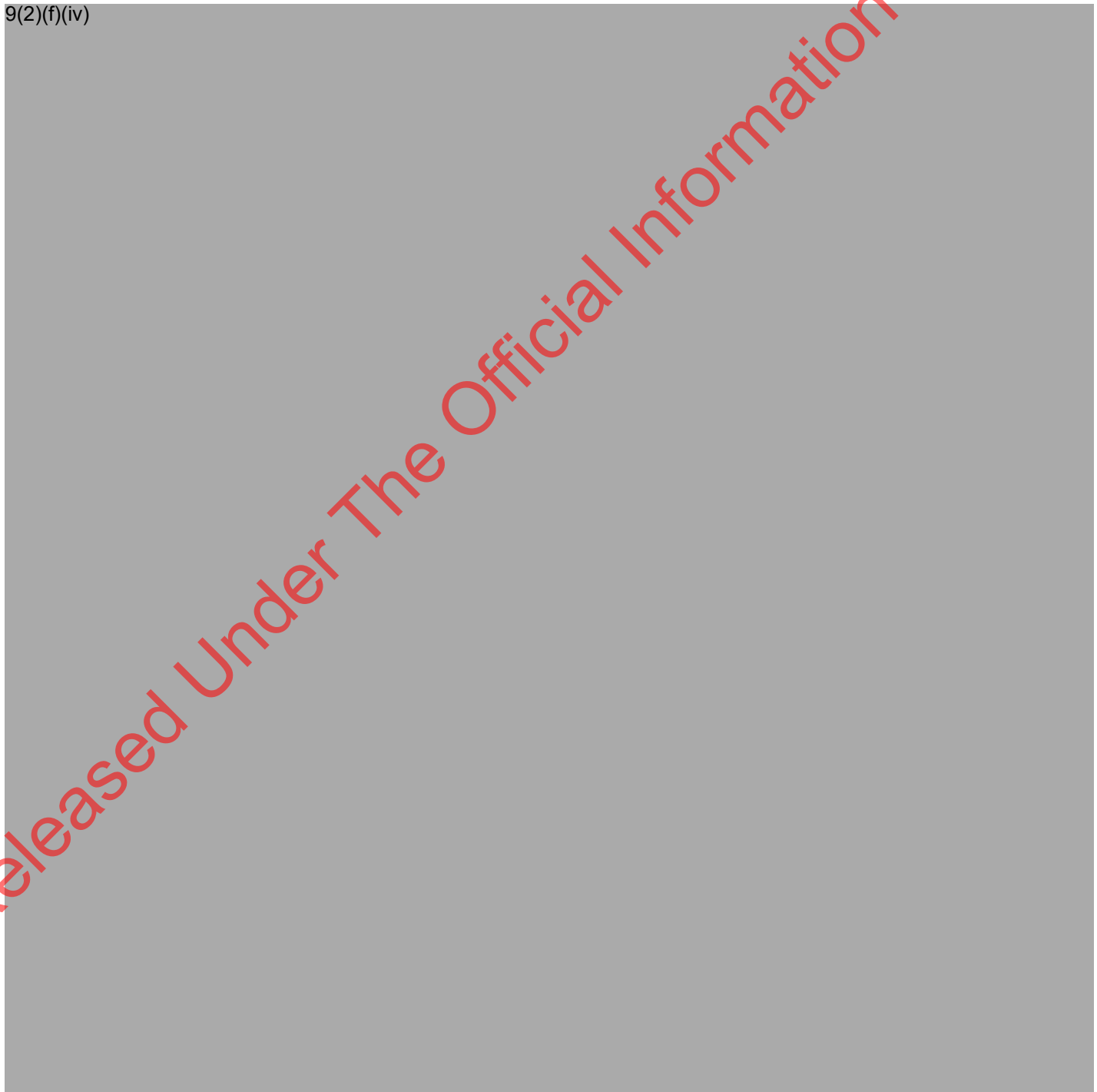
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9(2)(f)(iv)



95. The CCC has a statutory requirement to annually report on the adequacy of the ERP to achieve emissions budgets. These reports are due within three months of the Inventory, i.e. in July each year.

9(2)(f)(iv)



101. We will also prepare a paper for the next available CRMG meeting updating them on progress and seeking their views on your in-principle design choices.

102. 9(2)(f)(iv)

103. Subject to your feedback in relation to considering additional financing mechanisms, further work will be done to provide a recommended approach to achieving this.

104. Following your feedback, we will continue to develop options to better monitor progress towards emissions targets, and their fiscal risk. 9(2)(f)(iv)

Financial Institutions Workstream

105. Officials are soon to begin a targeted consultation programme to understand key issues and questions that are being considered as part of the institutions leg of the climate funding and financing policy development programme. 9(2)(f)(iv)

106.

107.


Emissions Reduction Plan

108. 9(2)(f)(iv)

109.

110.

111. 9(2)(f)(iv)



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Annex 1: existing monitoring and reporting tools on emission reduction targets and/or fiscal implications

Product	Timing	Comment
Quarterly gross emissions estimates (Stats NZ)	~4 months after quarter's end	Combines Inventory with other data to provide more timely quarterly emission estimates. Carries a disclaimer as it is provisional data. Gross emissions only.
Annual Projections Track progress towards NDC and 2050 target (MFE).	Annually, towards end of the year	Informal report drawing on latest agency emission projections compared to both domestic and international targets.
Greenhouse Gas Inventory The Government's official record of emissions that have occurred since 1990. Due to compilation requirements it has a lag time of more than one year. (MFE)	April 15 every year. For example, the April 2021 Inventory covered emissions up until the end of 2019.	Reports emissions, does not offer forward projections. Does not report progress against targets.
Net Position Report Track progress towards 2030 emission reduction target (MFE).	Usually released alongside the Inventory, and updated with projection updates.	Does not currently provide forward projections (reports against 2020 target). 9(2)(f)(iv)
Budget and Half Year Economic and Financial Updates (BEFU and HYEFU) Provides update on economic and fiscal conditions for the current financial year plus the four ensuing financial years. (TSY)	May and December every year	Includes any funding appropriated for climate change purposes, plus forecast ETS balances (expenses, revenue, liabilities and auction cash, and outstanding units) for the current year and each of the next four years. Includes specific fiscal risks to the fiscal outlook that are greater than \$100m and may have a material affect on the fiscal outlook but are not certain enough in timing or quantum to include in the forecasts.
Annual Monitoring Report The Act requires the CCC to assess adequacy of the emissions reduction plan to achieve emissions budgets. (CCC)	Every year within three months of the Inventory.	Focusses only on domestic emissions reduction plan. Is required to include the latest projections for current and future emissions and removals.
Response to Annual Monitoring Report The Act requires the Minister for Climate Change to present a report to the House of Representatives responding to the CCC's report. (MCC)	Not later than three months after receipt of CCC's annual report.	Focusses only on the domestic emissions reduction plan.
Biennial Transparency reports and National Communications to the UNFCCC Presents progress towards international climate change commitments. Biennial Transparency Reports will take over from the current Biennial Reports and National Communications from 2024	December every two years (2022, 2024)	Only issued every two years. Will report progress towards the NDC using forward projections. However it is based on inventory so has lag time.

<p>Emissions Reduction Plan</p> <p>Sets out the Government's plan to reach domestic emissions budgets.</p>	<p>12 months before each budget begins (except for first budget 2022-25).</p>	<p>Only focusses on achieving domestic budgets. 9(2)(f)(iv)</p>
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Annex 2: Forecast Fiscal Impacts of the ETS at BEFU 2021 (\$million)

	Fiscal Impact	2019/20 Actual	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast
1. <u>Non-cash revenue</u> (when firms surrender NZ Units to the Government)	Increases OBEGAL, no impact on Crown debt	1,043	1,366	1,467	1,527	1,726	1,807
2. <u>Non-cash expenses</u> (when the Government allocates NZ Units to firms for free)	Decreases OBEGAL	(650)	(856)	(844)	(842)	(838)	(802)
3. <u>Cash received</u> (when new NZ Units are sold by auction)	Reduces core Crown net debt. No OBEGAL impact as this transaction is revenue neutral.	215	1,375 ⁷	707	699	661	603
4. <u>Revaluation of NZU stockpile</u> (when the market carbon price changes)	Increases or decreases Operating Balance. No OBEGAL impact	(1,097)	(586)	-	-	-	-
5. Movement in NZU Stockpile (the impact of the above transactions on outstanding units)	A net worth rather than an OBEGAL impact, but as outstanding units are not included in debt, no debt/GDP impact	-919	-1,451	-84	-15	227	402

⁷ This figure is significantly higher than the following years because it includes cash from the Fixed Price Option, which will not be available from 2022 onwards.



Document 4

Funding and Financing the Transition – follow up on feedback

Date Submitted:	7 July 2021	Tracking: BRF-327 T2021/1787
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	Action sought:	By:
To Hon Grant ROBERTSON, Minister of Finance Hon James SHAW, Minister of Climate Change	Agree recommendations in paragraphs 8 & 9 and provide further feedback	12 July 2021

Actions for Minister's Office Staff	Return the signed report to the Treasury and the Ministry for the Environment.
Number of appendices and attachments: 1	Draft ERP consultation questions on funding and financing

Ministry contacts

Position	Name	Cell phone	1st contact
Team Leader, Sustainable Finance, Ministry for Environment	Alex White	022 0120 060	✓
Director, Ministry for Environment	Katherine Wilson	021 146 3122	
Senior Analyst, The Treasury	Patrick Kirkham	s9(2)(a)	✓
Manager, The Treasury	Nicky Lynch		

Funding and Financing the Transition – follow up on feedback

Purpose

1. This note:
 - a. sets out what we heard from you in response to our advice on funding and financing the transition [T2021/1566; BRF-49]
 - b. proposes what further advice we will provide you and by when
 - c. clarifies the funding and financing questions we will consult on via the upcoming ERP consultation
 - d. sets out a timeline of how key decision points for Ministers on funding and financing are sequenced with the ERP and Budget 2022 timelines

Background

2. The Funding and Financing the Transition work programme seeks to provide a strategic framework for adequate, certain and durable funding for climate action over time. This includes allocation of new investment through budget processes, alignment of existing public funding with positive climate and resilience outcomes, and mobilising private capital to meet climate objectives. This work will inform funding of the Emissions Reduction Plan. The final Emissions Reduction Plan, which will be published in December, will provide an opportunity to announce Cabinet decisions taken as part of the funding and financing workstream.

What we heard

3. We understand that you would like to get a sense of the likely funding requirements of the first ERP, to enable decisions on the appropriate architecture to meet upcoming funding needs and to inform your approach to Budget 2022.

4. 9(2)(f)(iv)

5.

6.

Further advice

7. We propose to provide you the following advice by the beginning of August
 - a. Best available information about the ERP cost profile (the nature and quantum of funding requirements)

b. 9(2)(f)(iv)

- c. Seek in-principle decisions on these two options
- d. Further analysis on options for hypothecated ETS proceeds, and seek in-principle decisions
- e. A progress update on the 'financial institutions' workstream, considering the current investment landscape for climate investment, and where the ^{9(2)(f)(iv)} concept sits in this landscape

Minister of Finance

Minister for Climate Change

Agree / Disagree

Agree / Disagree

- 8. We will provide further detail on standalone options for how the Government could achieve greater transparency and improved incentives to manage these costs. This will be provided as a supplementary piece of advice to the Ministers of Finance and Climate Change on a similar timeframe to the NDC Issues Paper (i.e. ahead of the next CRMG meeting).

Minister of Finance

Minister for Climate Change

Agree / Disagree

Agree / Disagree



ERP consultation document

- 9. When officials met with Minister Shaw on 6 July, we also discussed which policy options could be publicly consulted on via the ERP Consultation.
- 10. The consultation for the ERP will run from mid-August to mid-September. Analysis of the submissions will take place for two to three weeks after that. The results of that analysis will then be used by agencies to inform the final ERP; Cabinet approval for this will be sought in November.

11. ^{9(2)(f)(iv)}

12.

Signature

 Katherine Wilson Director, Ministry for the Environment	7 July 2021
 Nicky Lynch Manager, The Treasury	7 July 2021
Hon Grant Robertson Minister of Finance	
Hon James Shaw Minister of Climate Change	

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